

Local Government

Vehicle License Fee. The Governor proposes to fully fund the VLF offset backfill to cities and counties at a General Fund cost of \$4.1 billion.

Additional ERAF Shift. The Governor proposes \$1.3 billion in General Fund savings in 2004-05 from a proposed ongoing annual increase in the property tax shift from local governments to schools and community colleges. This shift takes place through the Educational Revenue Augmentation Fund (ERAF) in each county and reduces on a dollar-for-dollar basis the state's GF obligation to K-14 education under Proposition 98. The administration indicates that this proposal is intended as a permanent ongoing equivalent to the \$1.3 billion of VLF gap funding shortfall to local government in the current year. However, this additional ERAF shift will not be repaid to local governments, and the impact will fall heavily on counties, special districts, and redevelopment agencies.

Other proposals. The Governor proposes to reduce General Fund as follows: (1) \$38.2 million from eliminating Booking Fee subventions, (2) \$179 million associated with the suspension of Proposition 42 local transportation funding allocations, and (3) \$11.9 million from eliminating the remaining Realignment portion of the VLF backfill for International Registration Plan Trailers (\$5.9 million 2003-04 was included in the mid-year reductions).

Transportation

Suspension of Proposition 42 Transfer to the Transportation Investment Fund (TIF). The Governor proposes to fully suspend the Proposition 42 transfer to the TIF for the 2004-2005 budget-year. The Administration estimates General Fund savings of \$1.12 billion as a result of this proposal. A full suspension of Proposition 42 will have a crippling effect on the Traffic Congestion Relief Program (TCRP), the State Transportation Improvement Program (STIP), and funding for local street and road maintenance. Please see the following issue for a more detailed discussion regarding the TCRP and STIP.

Repeal the statutory authority for projects in the Traffic Congestion Relief Program (TCRP). The Governor proposes to transfer \$189 million from the Traffic Congestion Relief Fund (TCRF) to the General Fund, and eliminate the authority for all 159 projects in the TCRP. The Administration argues that the TCR project sponsors can secure funding through the STIP, or local funding mechanisms.

The TCRP authorized \$4.9 billion for 159 specific projects over a 5-year period. The recent cash flow estimate for currently allocated TCR projects estimates that only \$74 million will be unexpended at the end of the year. This raises the question of how the Administration intends to capture \$189 million if the majority of these funds are expended? Another issue to consider is what effect this proposal will have on existing contracts. Taking the \$189 million from the TCRF will likely cause a number of contracts to be cancelled. In the likelihood that contracts are terminated, the Administration should identify all costs associated with the contract terminations. Who is going to pay these costs and what fund source(s) will be used?

Another problem with this proposal is incorporating the TCR projects in the STIP. The draft 2004 STIP Fund Estimate results in taking \$5.5 billion in projects and rescheduling them over the 5 years of the 2004 STIP. This assumes the Transportation Investment Fund (TIF) transfers to the STIP and PTA. If the Administration proposes to suspend the TIF transfers in the 2004-05 budget-year, the Transportation Commission (CTC) will likely have to deprogram projects.

Repeal the High Speed Rail Bond Initiative. The Governor proposes to repeal the High Speed Rail General Obligation Bond from the ballot in 2004. Senate Bill 1856 (Chapter 697, Statutes of 2002), authorizes a \$9.95 billion bond measure to

help fund the planning and construction of the high speed rail passenger system. The Administration is proposing to fund the High Speed Rail Authority in the budget-year.

Federal Grant Anticipation Revenue Vehicles (GARVEE Bonds). The Governor proposes \$800 million from GARVEE Bond proceeds to offset the loss of transportation revenues. The issuance of GARVEE bonds allows the state to borrow against future-year federal funds, for purposes of spending the funds now. The resources generated from the bonds would be used for projects in the STIP.

Public Employee Retirement Contributions. As public employee contracts are re-opened, bargained, and renewed in the coming years, the Governor proposes to increase the individual employee's contribution towards their retirement by one percentage point. (For example, state employees currently contributing five percent of their income would contribute six percent.) Implementation of this proposal is contingent upon the collective bargaining process.

Two-Tiered Pension System. The Governor proposes to revert back to a two-tiered retirement system, whereby newly hired state employees contribute less of their salary to the Public Employee Retirement System in exchange for reduced benefits under the State's defined-benefit retirement system. Combined with the above-noted increase in employee contributions, these two reforms are expected to result in \$950 million in General Fund savings in 2004-05.